MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2022/2023

BAC4644 ADVANCED TAXATION

(All Sections / Groups)

2 OCTOBER 2023
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 9 pages including the cover page with **FIVE** (5) Questions only.

2. Attempt **ALL** questions. The distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

In July 2020, Mr. Nathan passed away due to COVID-19 complications. He was survived by his wife, Madam Amanda and their four children. All of them had been and remain until today Malaysian tax residents.

Mr. Nathan had left behind a will, in which he appointed his wife as its executor and named their children as the beneficiaries. The details of his will are as follows:

- Mr. Nathan's business is to be transferred into a trust.
- Madam Amanda is to manage the business and be paid an annual annuity of RM144,000 from the trust.
- The first child is to be paid annually one quarter of the trust's distributable income. However, Madam Amanda has the sole discretion on the amount to be paid.
- The second and third children are each to be entitled to one-half of the balance of the trust's distributable income every year.
- The last child, who was only fifteen years old when Mr. Nathan passed away, is to have a sum of RM15,000 accumulated annually until she reaches the age of twenty-one.

Madam Amanda has provided the following information with regard to the trust's business activities for the year ended 31st December 2022.

	RM
Gross business income	625,000
Less: Expenses	(415,000)
Net business profit	210,000

The above expenses included the following charges made by Madam Amanda in the trust accounts.

- Trust management fee of RM60,000 paid to herself.
- Legal fees of RM9,750 to settle a dispute with a relative claiming for a share of the trust's income. A payment of RM30,000 was made to the relative in lieu of his withdrawing the claim.
- Cash donations totalling RM15,000 to approved charitable organisations.

The trust had also received the following income from its investments during the year.

- Interests amounting to RM15,650 from fixed deposits placed in local banks.
- Dividends totalling RM7,300 received from investments in public listed companies trading in Bursa Malaysia.
- Dividends totalling RM10,200 received from investments in listed corporations in Australia. Only a third of the amount had been received in Malaysia during the year.
- Gross income of RM240,000 from real properties rented out. A total of RM26,650 had been spent during the year for the properties' maintenance and assessment fees.

The trust had a balancing allowance of RM3,700 and a capital allowance of RM12,400 on the assets it used in its business for the Year of Assessment (YA) 2022.

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Based on its distributable income of RM312,500 before any accumulation, the trust had made the following distributions to its beneficiaries at the end of its financial period.

- The first child was paid RM44,000.
- Each of the second and third children received a sum of RM99,750.

The trust's Section 61(2) application to the Director-General of the Inland Revenue Board of Malaysia (IRBM) to allow the deduction of distributions made to beneficiaries has been allowed.

Required:

Calculate, for the Year of Assessment (YA) 2022

a. the chargeable income of the trust; and

(15 marks)

b. the statutory income of each beneficiary.

(5 marks)

Note: Show all relevant workings. Round up all your answers into the nearest Ringgit Malaysia (RM).

(Total: 20 marks)

QUESTION 2

Seven Nations Property Trust (SNPT) is an approved and listed real estate investment trust (REIT). It was incorporated in the year 2015 with a paid-up share capital of RM5 million and has closed its accounts on 31st December annually ever since.

The following statement of accounts shows SNPT's performance for the financial year 2022.

	RM	RM
Income		
Rent		780,000
Dividends from investments in local listed companies		46,000
Gains from realisations of shares		39,000
Interests from investments in convertible loan stocks		55,000
		920,000
Expenses		
Approved cash donations	30,000	
Depreciation	27,000	
Entertainment expenses for suppliers	40,000	
Fees for fund managers	360,000	
Interest on loan for acquisition of rental properties	81,000	
Interest on loan for acquisition of shares	50,000	
Quit rent and assessment fees of rental properties	19,000	
Repairs and maintenance of rental properties	26,000	

Continued...

Secretarial fees	18,000	
Tax filing fees	14,000	
Trustees' fees	120,000	(785,000)
Profit before tax		135,000

In December 2022, SNPT had distributed RM235,350 of its total income for the year to its unitholders. It was entitled, for the year, to a capital allowance of RM23,450.

SNPT is subject to an income tax rate of 24%.

Required:

a. Calculate the income tax payable of Seven Nations Property Trust for the Year of Assessment (YA) 2022.

(16 marks)

b. By assuming that Seven Nations Property Trust had only distributed RM215,500 of its total income to its unitholders for the year, calculate its income tax payable for YA2022.

(4 marks)

Note: Show all relevant workings. Round up all your answers into the nearest Ringgit Malaysia (RM), except for the income tax payable figures.

(Total: 20 marks)

QUESTION 3

Part A

Elga Sdn. Bhd. ("Elga") is a service tax registrant operating a health and wellness centre in Damansara Perdana. It is listed in Group C category of taxable person and subject to service tax rate of 6%. The table below provides the fees Elga had received from its clients in the year 2022.

Month	Fees received (RM)
January	230,000
February	235,000
March	233,000
April	248,000
May	229,000
June	232,000
July	242,000
August	238,000
September	234,000
October	236,000
November	206,000
December	250,000
Total	**2,813,000**

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Required:

i. Determine the taxable periods, service tax payables, and submission due dates of Elga Sdn. Bhd. for the fees it received in the year 2022.

(6 marks)

ii. Appraise the management of Elga Sdn. Bhd. on the penalty it would be subjected to if it fails to make its service tax submission on the prescribed due date.

(2 marks)

Part B

Secure Ocean Shipping Ltd. is a non-tax resident firm carrying on the business of transporting cargoes by sea. Its financial information for the year ended 30th June 2022 are as follows.

	RM'000
Gross revenue received from:	
• Inward shipments receivable from Malaysia	2,240
• Inward shipments receivable outside Malaysia	3,360
• Outward shipments from Malaysia	3,980
Total	9,580

In July 2022, Secure Ocean Shipping Ltd. had produced a certificate from the tax authority of its country of origin. The certificate, which had been accepted by the Director-General of Inland Revenue Board of Malaysia (IRBM), provides the following information.

Financial period: 1st July 2021 – 30th June 2022	**RM'000 equivalent**
Gross world shipping income	24,880
Adjusted world shipping income	18,100
World capital allowance	3,650

In September 2021, Secure Ocean Shipping Ltd. had made a cash donation of RM15,000 to an environmental charity established in Malaysia, which was an approved institution.

Secure Ocean Shipping Ltd. is subject to a Malaysian income tax rate of 24%.

Required:

Calculate the income tax payable of Secure Ocean Shipping Ltd. for the Year of Assessment (YA) 2022 using the following methods:

i. 5% method

(6 marks)

ii. Acceptable ratio certificate method

(6 marks)

(Total: 20 marks)

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QUESTION 4

Part A

Coffee Farmers' Co-operative Society ("the Society") was registered in the year 2010 under the Co-operative Societies Act 1993. The audited information for its financial year ended 31st December 2022 are as presented below.

- The Society carries on the business of dealing mainly with coffee plantation for the benefits of its members. It made gross sales of RM210,800 and incurred RM76,000 in expenses, which included depreciation of RM11,200 and approved cash donations of RM26,600. The rest of the expenses were wholly and exclusively incurred in the production of the Society's gross income. The Society could claim a capital allowance of RM9,900 on the assets it used for its business.

- The Society had invested well. It earned RM23,450 as interest from its fixed deposits in local banks. It had also earned a net rental income of RM78,000 for the year.

- The Society's members' fund as at 1st January 2022 is presented below:

	RM
Share capital	250,000
Members' fee capital	340,000
Share redemption fund	110,000
Accumulated profit	95,000
Statutory reserve fund	105,000
Total	900,000

- The Society had made statutory contributions to its following funds during the year:

	RM
Statutory reserve fund	13,250
Education trust fund	14,150
Development trust fund	14,600

Required:

Calculate the income tax payable of Coffee Farmers' Co-operative Society for the Year of Assessment (YA) 2022. Show all relevant workings. Round up all your answers into the nearest Ringgit Malaysia (RM), except for the income tax payable figures.

(16 marks)

Continued...

Part B

Ling Yin Temple is a functioning Buddhist temple in Melaka. The temple has been registered since the year 1990 with the Registrar of Society, Malaysia as well as the Malaysian Buddhist Association, which is the head of Buddhist religious organisations in this country.

The temple has been very active in performing activities exclusively for the purposes of religious practices and advancement of Buddhism among its devotees. In order to finance these activities, the temple management has been diligently soliciting donations from its devotees.

During the year 2022, it had collected a total of RM1.2 million in donations from its individual devotees, the general public, as well as other organisations, both corporate and non-profit.

Required:

Determine the taxability of the donations received by the management of Ling Yin Temple in the year 2022. Support your explanations by quoting relevant laws from the Income Tax Act 1967 (as amended).

(4 marks)

(Total: 20 marks)

QUESTION 5

Part A

Bot Sdn. Bhd. ("Bot") is a company producing waterproof household products. Flesh Sdn. Bhd. ("Flesh") is a furniture manufacturer. Both companies are incorporated and tax residents in Malaysia. They close their respective accounts to a 31st December year-end.

Bot holds 75% of the shares in Flesh since the year 2017. Together, these companies form the Bot Group ("the Group").

In the past several years, Flesh has been incurring losses in its business. The Group's management has provided the following details with regard to its financial year 2022.

- Both companies have paid-up share capitals of RM5 million, respectively, as at 1st January 2022.
- None of the companies have ever enjoyed any tax incentives.
- The financial information for the year is presented in the table below:

	Bot (RM'000)	**Flesh (RM'000)**
Adjusted income from business	4,300	(1,500)
Capital allowance	900	360
Rental income (net)	54	233
Cash donations to approved institutions	98	35

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The Group's management is keen to utilise Flesh's loss to its advantage. As its tax consultant, you are responsible for advising the Group's management in effectively utilising the group tax relief to ensure their competitiveness in the market.

Required:

i. Determine whether the companies in Bot Group would be eligible to claim the group tax relief for the Year of Assessment (YA) 2022.

(2 marks)

ii. Calculate the income tax payable of each of the companies in Bot Group for YA2022.

(8 marks)

Part B

Belqaoui (Labuan) Ltd. ("Belqaoui") is a company incorporated in Labuan under the Labuan Companies Act 1990. It carries on Labuan trading activities and closes its accounts to 30th September annually.

The audited income statement of Belqaoui for its financial year 2021 presents the following information:

- Belqaoui's net profit for the year was RM3.25 million.
- Belqaoui's profit included royalty income totalling RM1.2 million from its registered industrial design that it commercially rented out to other firms.
- Belqaoui had paid *zakat* amounting to RM0.5 million to the Labuan Islamic Religious Council in August. This amount had been deducted in arriving at its net profit for the year.

Required:

Based on the information provided above,

i. determine the relevant Year of Assessment (YA) and basis period of Belqaoui (Labuan) Ltd.;

(2 marks)

ii. calculate the tax liability of Belqaoui (Labuan) Ltd. for the relevant YA; and

(7 marks)

iii. identify the appropriate tax treatment for the royalty income of Belqaoui (Labuan) Ltd.

(1 mark)

(Total: 20 marks)

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APPENDIX

TAX RATES AND ALLOWANCES

i. Income tax rates of a resident company with paid-up capital of not more than RM2.5 million for the Year of Assessment (YA) 2022.

Chargeable income	Income tax rate
On first RM600,000	17%
Excess RM600,000	24%

ii. Income tax rate of a resident company with paid-up capital of more than RM2.5 million and a non-resident company for YA2022.

Chargeable income	Income tax rate
All chargeable income	24%

iii. Income tax rates for a resident co-operative for YA2022.

Chargeable income (RM)	Calculation (RM)	Income tax rate (%)	Income tax (RM)
0 - 30,000	On the first RM30,000	0	0
30,001 - 60,000	On the first RM30,000 Next RM30,000	5	0 1,500
60,001 - 100,000	On the first RM60,000 Next RM40,000	10	1,500 4,000
100,001 - 150,000	On the first RM100,000 Next RM50,000	15	5,500 7,500
150,001 - 250,000	On the first RM150,000 Next RM100,000	18	13,000 18,000
250,001 - 500,000	On the first RM250,000 Next RM250,000	21	31,000 52,500
500,001 - 750,000	On the first RM500,000 Next RM250,000	23	83,500 57,500
750,001 and above	On the first RM750,000 For every next RM	24	141,000 .....

End of Question.